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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, JANUARY 19, 1981 VOLUME XVIII, NUMBER 3

New Borrowing Weakens . . .

Consumer credit outstanding expanded for the fourth consecutive month in November, however, upon closer examination, this fact which initially appears encouraging provides little to cheer about. The reason is that credit extentions declined during the month, but debt repayments declined even further. Consumers borrowed $1.4 billion or five per cent less than in October. That decrease was the sharpest drop since the 1973-75 recession (with the exception of last March and April when the use of credit was hampered by the Fed's credit restrictions). Repayments declined by 5.7 per cent—the largest monthly dip ever.

These statistics signal a weakening economy in general and deteriorating consumer situation in particular. People have apparently become unwilling to finance purchases by increased borrowing when faced with uncertainties about the future (Financial Digest—January 12, 1981). They seem to be reluctant to acquire new debt despite a decrease in the proportion of disposable income used to repay existing debt. This has declined from 18 per cent registered toward the end of 1979 to less than 16 per cent, suggesting smaller repayments, due to stretching payments over as long a time period as possible. Similarly, debt extensions as a per cent of disposable income declined to slightly under 16½ per cent after topping 20 per cent toward the end of 1979. Debt repayment has become a serious concern for many individuals who for some time have seen their purchasing power eroded by inflation. For those people, sharply escalating costs of necessities such as food, housing and energy, compounded by the high cost of credit, have resulted in a substantial curtailment of discretionary purchases.

One of the largest declines occurred in extensions of automobile credit which decreased by 5.7 per cent from $7.54 billion extended in October. All other categories posted declines, including revolving credit, mobile homes, and other installment credit which plummeted by $700 million. In November 1980, total consumer credit outstanding was relatively unchanged compared with a year ago following an expansion of 14.6 per cent in 1979 and almost 20 per cent in 1978.

. . . Taking Its Toll On Retail Sales

The increased reluctance to purchase on credit showed up in December's retail sales numbers which declined, following six months of increase. Total sales at retail stores—a lot of which are dependent on the use of credit—fell by 1.3 per cent from November to a seasonally adjusted $80.8 billion paced by a 7.5 per cent fall in sales by automobile dealers. Although total sales were five per cent above the year-ago figure, after inflation is factored out, they registered a six per cent retreat.

Declines were posted by most durable as well as some nondurable goods stores. Durable goods sales slipped by 3.5 per cent, but the worst pinch was experienced by the interest sensitive sectors—mostly housing and auto related. If the situation in this area continues, many other industries which supply these two key industries will start to be affected soon and further weakness may occur in rubber, home furnishings, metals and others.

Nondurable goods sales declined at a slower pace. Only the general merchandise group stores, gasoline service stations and surprisingly drug stores sold less than the month before. Reflecting the lackluster Christmas shopping season, department store sales fell by two per cent and were only 5.8 per cent above the previous year. Food stores, apparel and accessory stores, restaurants and bars posted very small increases which barely kept pace with the rate of inflation.

Employment Prospects Dim

Responding to the five-month upturn in industrial output, the employment situation improved for the third consecutive month in December, albeit slightly. The unemployment rate dropped by one percentage point to 7.4 per cent last month while many factory workers worked longer hours and overtime increased to an average of 3.1 hours per week. But the number of those employed declined as many discouraged workers left the job market which resulted in a shrinking labor force. Although many industries rehired some workers after laying them off during the summer, there are substantially fewer production workers currently employed than at the onset of the recession.

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Importantly, the number of workers in the goods producing industries which include mining, construction and manufacturing is almost one million below that prevailing at the onset of the current recession. This slide was mostly concentrated in manufacturing, where after a half-million workers were rehired during the second half of the year, 750,000 of those laid off since January remain jobless. Not surprisingly, the employment picture was the worst in durable goods manufacturing. For example, the number of production workers employed by the transportation equipment industry is down by 5.6 per cent since the beginning of last year, rubber and plastics by 5.8 per cent, furniture and fixtures by 5.5 per cent and nonelectrical machinery by 5.3 per cent. Fortunately, the service sector consistently expanded its payrolls in the past year, partially offsetting the declines in other areas. Employment here increased by 3.2 per cent or half a million employees since January 1980.

Although last month's improvement in the unemployment rate was a pleasant surprise it probably will be cut short by weakening final demand. Declining retail sales and slowing new orders for manufactured goods will shortly force manufacturers to cut back production—where the rate of rise has already slowed substantially in the past three

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 1/7/81	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	130.499	+ 4.054	+ 3.494
Loans to Depository Inst.	1.117	– .510	+ .387
Float	5.991	– 3.058	– 1.619
Total Reserve Bank Credit	146.266	+ .409	+ 5.293
Treasury Deposits with Federal Reserve Banks	2.979	– .307	+ .167
Currency Outside Banks	122.913	– .345	+ 9.431
Member Bank Reserves:			
Required	40.374	– .184	– 4.169
Excess (Deficiency)	.851	+ .355	+ .723
Total Reserves Held	41.225	+ .171	– 3.446
Net Borrowed Reserves	.154	– .861	– .278
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	92.871	+ 1.076	+12.156
Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M-1A	382.5	– 0.7‡	+ 3.4‡
M-1B	417.6	+ 3.6‡	+ 6.0‡
M-2 (December '80)	1,669.7	+ 7.2	+ 9.4
L (October '80)	2,310.1	+ 12.4	+ 8.9

†Seasonally adjusted. *Seasonally adjusted annual rate. ‡Four-week moving average.

New York Money Market

Offering Rates 1/16/81	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	14.90%	12.90%	12.40%
* Federal Agencies	15.75	14.30	12.50
* Project Notes–Taxfree (46% Taxable Equivalent)	12.50	13.15	13.15
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
*Secondary Market–Prime	16.50	15.00	

‡Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	18.13%	Feb.	18.25%
15- 29 days	18.25	Mar.	17.60
30- 59 days	17.00	Apr.	17.10
60-179 days	16.00	May	16.50
180-270 days	14.00	Jun.	15.60
		Jul.	15.00

‡Industrial Paper–Prime			
30- 89 days	18.00%	†Federal Funds Effective Rate	19.85%
90-120 days	17.00		

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'80	$ 2,637	$ 2,565	$ 2,444
Gross National Product (1972 Dollars)*	3rd Q'80	$ 1,472	$ 1,463	$ 1,488
Percent Change, Annual Rate	3rd Q'80	2.4%	– 9.9%	4.1%
Change in Consumer Prices (all urban consumers)*	Nov '80	12.0%	12.0%	12.0%
Change in Producer Prices*	Dec '80	7.2%	7.2%	9.6%
Civilian Employment (Thousands of Persons)†	Dec '80	97,282	97,339	97,781
Unemployment as % of Civilian Labor Force†	Dec '80	7.4%	7.5%	6.0%
Personal Income*	Nov '80	$ 2,257	$ 2,233	$ 2,006
Leading Indicators Composite Index (1967=100)†	Nov '80	137.6	136.0	135.6
Industrial Production Index (1967=100)†	Dec '80n	150.7	149.2	152.5
Net Change in Consumer Installment Credit†	Nov '80n	$ 0.84	$ 0.70	$ 2.69
U.S. Merchandise Trade Balance†	Nov '80	–$ 0.79	–$ 0.97	–$ 1.62
Plant and Equipment Expenditures*	1st Q'81	$310.59(a)	$297.30(a)	$291.89
Private Housing Starts (Thousands of Units)*	Nov '80	1,555	1,561	1,522
New Construction Expenditures*	Nov '80	$ 231.8	$ 226.2	$ 239.4
Total Business Inventories†	Nov '80	$ 458.2	$ 456.5	$ 426.0
Total Business Sales†	Nov '80	$ 329.1	$ 325.8	$ 298.9

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

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months to only one per cent in December—and with it reduce payrolls. The overall unemployment rate may rise again, climbing even above the 1980 peak of 7.6 per cent. Furthermore, productivity will again be threatened as it usually is during periods of declining output as employers lay off workers at a slower pace than reduce production.

Iran's Assets And The Money Supply

At week's end, it appeared that, if an agreement was to be reached with the Iranians regarding the return of the hostages, it would involve release of Iran's frozen financial assets. There has been much speculation on the possible impact of this on the U.S. money supply. Most estimates place the total value of these assets at between $6 and $9.5 billion. These funds are held as various forms of time deposits (e.g. certificates of deposit) in foreign branches of U.S. banks, as time deposits in U.S. banks within the United States, and in the form of government and other securities. Only a very small portion is held as bank demand deposits, either in the U.S. or abroad.

To determine the possible money supply impact of releasing these assets to the Iranian government, the various alternative ways in which they might be transferred must be considered. They are:
1. The assets may remain on deposit where they are,

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (12/31/80)	116,597	+ 989	+23,779
New York City (12/31/80)	28,649	+ 66	+ 9,073
Commercial Paper (12/31/80)	123,085	– 1,059	+10,173

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (12/31/80)	174,570	+ 1,988	+16,680
New York City (12/31/80)	51,835	+ 1,080	+ 3,859

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (12/31/80)	433,563	+ 5,112	+32,208
New York City (12/31/80)	104,881	+ 3,622	+12,691

Financial Markets

	Friday 1/16/81	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	15.92%	– .08	+ 3.59
180-Day Bills†	15.20	– .40	+ 2.67
Longest Bills†	13.83	– .45	+ 1.99
Recent Issues:			
15 1/8s 12/31/82	13.02	– .50	
14s 12/31/84	12.90	– .10	
13s 11/15/90	12.58	+ .04	
12 3/4s 11/15/10	12.15	+ .06	
Municipals:			
Bond Buyer–20 Bond Index* (1/15/81)	9.57%	+ .08	+ 2.29
Blue List Total ($ Million)	$ 589	– $ 17	– $ 196
30-Day Visible Supply ($ Million)	$1,268	+ $386	– $ 169
Total	$1,857	+ $369	– $ 365
Corporates:			
Moody's Aa Composite (1/15/81)	13.53%	+ .18	+ 2.00
Money Mgr.–30-Day Supply ($ Million)	$3,498	– $194	+ $1,541
Stocks:			
Dow-Jones Averages:			
Industrials	973.29	+ 4.60	+ 106.14
Transportation	401.98	+ 17.16	+ 138.30
Utilities	113.22	+ 0.33	+ 5.27
65 Stocks	375.92	+ 6.15	+ 67.67
Standard and Poor's 500 Stocks	134.77	+ 1.29	+ 23.70
N.Y.S.E. Composite Index	77.33	+ 0.89	+ 13.39
N.Y.S.E. Avg. Daily Vol. for Week (000's)	42,854	–22,280	– 12,038

* 46% Taxable equivalent 17.72%.

† Bond equivalent.

International Rates

	Friday 1/16/81	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	19.75%	19.88%
1 month	19.81	19.00
3 month	18.75	18.00
6 month	17.25	16.63
1 year	15.75	15.38
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	13.20%	12.90%
Long Term (7 to 15 yrs.)	13.00	12.80

FOREIGN EXCHANGE SPOT RATES

New York Opening (1/16/81)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.03082	32.45
Canada	.8386	1.1924
Denmark	.1611	6.2080
France	.2145	4.6610
Germany	.4956	2.0177
Italy	.001042	959.75
Japan	.004931	202.80
Mexico	.04275	23.39
Netherlands	.4557	2.1945
Switzerland	.5471	1.8277
U.K.	2.4011	.4165

2. they might be redeposited as dollar denominated assets in non-U.S. banks (i.e. in the Eurodollar market),
3. they might be exchanged for various foreign currencies.

In any of these events, the money supply effects would be negligible. If the assets remain as they are now there would be obviously no effect on the U.S. money supply. If the assets were redeposited with non-U.S. banks in dollar-denominated assets, the result would simply be the transfer of the title to the deposits from one holder to another with no net effect on our money supply. If the funds were exchanged for foreign currencies, there would also be no money supply effect. If the U.S. Treasury were the repurchaser of its own paper, it would issue an equivalent amount of securities in order to obtain the funds to pay the Iranians. Thus, an equivalent amount of money would be withdrawn from the banking system as was deposited. If the private sector purchased the Treasury paper, the effect would again be a transfer of ownership of the same number of dollars from the bank account of the buyer to that of the seller. In short, there is no net effect on the money supply.

The transactions involved above take place by wire and are, therefore, almost instantaneous. It is unlikely that any transitory disequilibrium caused by these transactions would be reflected in the weekly money supply figures which only reflect the aggregate impact of an almost infinite number of large and small transactions.

Finally, the amount under consideration—at most, $10 billion—is small, compared with even the narrowest measure of the money supply. Known as M-1A, this measure totals over $380 billion. Of course, at the margin, it would be significant, but it must be remembered that only the demand deposit component would be immediately available, and, as noted above, these funds in particular comprise only a small part of the total. H

THE SHAREHOLDERS RELATIONS FITNESS TEST.

STRENGTH:
Effective shareholder relations start with a stock transfer agent backed by an ongoing investment in hardware, software and "peopleware."

At Manufacturers Hanover, we're committed to having on-line the latest generation of computers with the most sophisticated programming capabilities available.

TRANSIFAC™ the nerve center of our entire operation, has a track record no competitor can match. Just ask any of the some 400 corporations we serve.

WEIGHT:
For many customers, Manufacturers Hanover has reduced the number of shareholder accounts by more than 10% – the result of seeking out duplicate accounts the previous stock transfer agent may have entered wrong.

REFLEXES:
At Manufacturers Hanover, shareholder records are accessible instantly. So you can respond without delay to such developments as tender offers.

MEMORY:
Our TRANSIFAC system maintains fully computerized audit controls over all work, keeps track of certificate inventory, and assures control over the production of certificates and transfer reports and the mailing of dividend checks.

POSTURE:
Manufacturers Hanover recognizes that the human side of this business is all-important. Not only will you have an account administrator coordinating all day-to-day tasks, but a backup team of three other officers thoroughly familiar with every aspect of your account. So you and your shareholders always have someone to turn to.

If your present stock transfer agent looks out of shape to you, talk to Manufacturers Hanover. For more information on our stock transfer and registration services, contact Joseph Unger, Vice President, at (212) 623-7542. Or write us at 40 Wall Street, N.Y., N.Y. 10015.

IF YOUR STOCK TRANSFER AGENT CAN'T PASS IT, TALK TO MANUFACTURERS HANOVER.